

KEEGAN, WERLIN & PABIAN, LLP

ATTORNEYS AT LAW
21 CUSTOM HOUSE STREET
BOSTON, MASSACHUSETTS 02110-3525

(617) 951-1400

TELECOPIERS:
(617) 951-1354
(617) 951-0586

March 14, 2003

Mary L. Cottrell, Secretary
Department of Telecommunications and Energy
One South Station
Boston, MA 02110

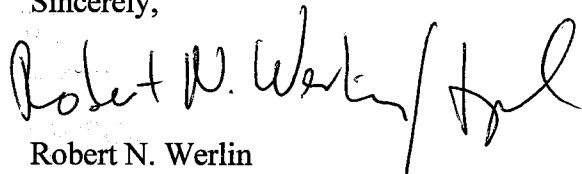
Re: Cambridge Electric Light Company/Commonwealth Electric Company d/b/a
NSTAR Electric, D.T.E. 01-79, Response to Information Request

Dear Secretary Cottrell:

Enclosed for filing in the above-referenced matter is the response of Cambridge Electric Light Company and Commonwealth Electric Company d/b/a NSTAR Electric to the Information Request set forth on the accompanying list.

Thank you for your attention to this matter.

Sincerely,


Robert N. Werlin

Enclosures

cc: Caroline O'Brien, Hearing Officer
Service List

Response to Information Request

Information Request DTE-2-1

March 14, 2003

Information Request DTE-2-1

Please provide an update of the Companies' tax stance regarding the proceeds from the sale of the Canal generating units.

Response

As the Companies indicated in testimony filed in D.T.E. 99-90, Exhibit RHM-1 at 42-43, after consultation with their tax advisors, the Companies believed that the sale of generating assets constituted a non-taxable transaction. They filed income tax forms consistent with this interpretation. As a result, the interest on the tax amounts that have reduced customers' return will ultimately become available to customers upon a favorable resolution of this issue. Essentially, the entire principal amount required to be paid to customers (i.e., the pre-tax book gain), with the exception of approximately \$20 million still held in the Energy Investment Services Company, Inc., together with a calculated return, has been credited to customers and/or has been used to buy out or buy down power contracts.

The local office of the Internal Revenue Service ("IRS"), together with IRS utility industry specialist located in Akron, Ohio, is reviewing the tax issue. As part of that review, the IRS is considering filing a Request for Technical Advice to the IRS National Office. As part of the audit, the IRS has asked questions of the Companies, the Department, and the Massachusetts Attorney General's office. The Companies have not received any formal further communications from the IRS on this issue since the Department responded on January 22, 2003 to the IRS questions posed to the Department by the IRS in their letter dated October 24, 2002. However, in a conference call between the Companies and the IRS on March 12, the Companies were informed that the IRS is still not satisfied that it has received responses to its questions which would enable it to fully understand why and how the pre-tax book gain dollars are being returned to customers. Among other problems, the IRS continues to be puzzled by the use of the term "net of tax" in the Restructuring Act. The Companies have agreed to prepare a side-by-side comparison of a Commonwealth filing and a Boston Edison filing to show that, in either case, the pre-tax amount flows to the benefit of the customers. It is important that the IRS agree to this as a fact in order that one Statement of Facts can be delivered to the IRS National Office. It is expected that the Request for Technical Advice will be filed before the end of the second quarter and subsequently an adverse conference will occur with the IRS National Office.

Cambridge Electric Light Company
Commonwealth Electric Company
Department of Telecommunications and Energy
D.T.E. 01-79
Information Request: **DTE-2-1**
March 14, 2003
Person Responsible: Joseph F. Lanzel
Page 2 of 2

within 30 days from the filed date. An adverse conference refers to the fact that the National Office will meet with the parties and discuss its findings and intended rulings prior to formal issuance of that Advice. Within 60 days of the date of filing, the IRS National Office will provide its formal response. If the response is adverse to the Companies, the Companies will then have to decide whether or not to appeal. If the Companies appeal, the appeal would either be to the IRS Appellate Division or through a court of law. If the response is favorable to the Companies, the IRS will drop the issue.